

## Part III

### Administrative, Procedural, and Miscellaneous

26 CFR 601.201: Rulings and determination letters.  
(Also Part I, Sections 832, 846; 1.832-4, 1.846-1.)

Rev. Proc. 2007-10

#### SECTION 1. PURPOSE

This revenue procedure prescribes the salvage discount factors for the 2006 accident year. These factors must be used to compute discounted estimated salvage recoverable under ' 832 of the Internal Revenue Code.

#### SEC. 2. BACKGROUND

Section 832(b)(5)(A) requires that all estimated salvage recoverable (including that which cannot be treated as an asset for state accounting purposes) be taken into account in computing the deduction for losses incurred. Under ' 832(b)(5)(A), paid losses are to be reduced by salvage and reinsurance recovered during the taxable year. This amount is adjusted to reflect changes in discounted unpaid losses on nonlife insurance contracts and in unpaid losses on life

insurance contracts. An adjustment is then made to reflect any changes in discounted estimated salvage recoverable and in reinsurance recoverable.

Pursuant to ' 832(b), the amount of estimated salvage is determined on a discounted basis in accordance with procedures established by the Secretary.

### SEC. 3. SCOPE

This revenue procedure applies to any taxpayer that is required to discount estimated salvage recoverable under ' 832.

### SEC. 4. APPLICATION

.01 The following tables present separately for each line of business the discount factors under ' 832 for the 2006 accident year. All the discount factors presented in this section were determined using the applicable interest rate under ' 846(c) for 2006, which is 3.98 percent, and by assuming all estimated salvage is recovered in the middle of each calendar year. See Rev. Proc. 2003-18, 2003-1 C.B. 439, for background regarding the tables.

.02 These tables must be used by taxpayers irrespective of whether they elected to discount unpaid losses using their own historical experience under ' 846.

.03 Section V of Notice 88-100, 1988-2 C.B. 439, provides a composite discount factor to be used in determining the discounted unpaid losses for accident years that are not separately reported on the NAIC Annual Statement. The tables separately provide discount factors for taxpayers who elect to use the composite method. Rev. Proc. 2002-74, 2002-2 C.B. 980, clarifies that for certain insurance companies subject to tax under § 831 the composite method for discounting unpaid losses set forth in Notice 88-100, section V, 1988-2 C.B. 419, is permitted but not required. This revenue procedure further provides alternative methods for computing discounted unpaid losses that are permitted for insurance companies not using the composite

method, and sets forth a procedure for insurance companies to obtain automatic consent of the Commissioner to change to one of the methods described in Rev. Proc. 2002-74.

.04 Tables.

**Tables of Factors to be Used to Discount  
Salvage Recoverable With Respect to Losses Incurred in  
Accident Year 2006**

**(Interest rate: 3.98 percent)**

**Accident and Health (Other Than Disability Income or Credit Disability Insurance)**

Taxpayers that do not use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable with respect to losses incurred in this line of business in the 2006 accident year as of the end of the 2006 and later taxable years.

Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount all salvage recoverable in this line of business as of the end of the 2006 taxable year.

## Auto Physical Damage

Tax Year	Discount Factors (%)
2006	97.1334
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Commercial Auto/Truck Liability/Medical**

Tax Year	Discount Factors (%)
2006	92.1380
2007	91.8882
2008	91.6949
2009	92.1286
2010	92.5860
2011	92.1065
2012	93.1945
2013	94.1358
2014	94.3956
2015	96.2168

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Composite**

Tax Year	Discount Factors (%)
2006	92.0337
2007	90.8802
2008	90.4072
2009	89.8712
2010	88.8367
2011	88.9101
2012	88.6960
2013	88.6734
2014	88.8118
2015	90.4886

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	92.2048
2017	93.9577
2018	95.7372
2019	97.4944
2020 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 93.6350 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Fidelity/Surety**

Tax Year	Discount Factors (%)
2006	94.2975
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Financial Guaranty/Mortgage Guaranty**

Tax Year	Discount Factors (%)
2006	95.5547
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.



**International (Composite)**

Tax Year	Discount Factors (%)
2006	92.0337
2007	90.8802
2008	90.4072
2009	89.8712
2010	88.8367
2011	88.9101
2012	88.6960
2013	88.6734
2014	88.8118
2015	90.4886

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	92.2048
2017	93.9577
2018	95.7372
2019	97.4944
2020 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 93.6350 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Medical Malpractice -- Claims-Made**

Tax Year	Discount Factors (%)
2006	87.6804
2007	83.3538
2008	87.7437
2009	85.5621
2010	86.5072
2011	81.4476
2012	90.5680
2013	93.2658
2014	96.4532
2015	98.0675

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Medical Malpractice -- Occurrence**

Tax Year	Discount Factors (%)
2006	83.9442
2007	85.0591
2008	88.4295
2009	89.8198
2010	78.2945
2011	87.5838
2012	92.3237
2013	95.1299
2014	96.7311
2015	98.0675

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Miscellaneous Casualty**

Tax Year	Discount Factors (%)
2006	96.6963
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Multiple Peril Lines (Homeowners/Farmowners, Commercial Multiple Peril, and Special Liability (Ocean Marine, Aircraft (All Perils), Boiler and Machinery))**

Tax Year	Discount Factors (%)
2006	92.9300
2007	91.3642
2008	92.0510
2009	91.7902
2010	91.4227
2011	92.5705
2012	92.6261
2013	92.8131
2014	94.2424
2015	96.0540

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	97.8851
2017 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 97.8836 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Other (Including Credit)**

Tax Year	Discount Factors (%)
2006	96.8727
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Other Liability -- Claims-Made**

	Discount
Tax Year	Factors (%)
2006	91.5341
2007	82.9787
2008	70.3678
2009	89.1316
2010	85.8677
2011	85.2144
2012	90.8949
2013	94.0739
2014	91.1910
2015	92.9193

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	94.6785
2017	96.4455
2018 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 95.5684 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Other Liability -- Occurrence**

	Discount
Tax Year	Factors (%)
2006	86.8418
2007	88.1391
2008	89.1356
2009	86.1576
2010	89.3069
2011	91.5372
2012	91.8852
2013	93.7371
2014	94.9176
2015	96.6537

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.



**Private Passenger Auto Liability/Medical**

	Discount
Tax Year	Factors (%)
2006	94.7409
2007	94.5642
2008	94.3153
2009	93.5866
2010	93.3908
2011	92.4796
2012	92.4373
2013	92.5029
2014	93.5781
2015	95.3333

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	97.0529
2017 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 97.2228 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Products Liability -- Claims-Made**

Tax Year	Discount Factors (%)
2006	88.1034
2007	88.1497
2008	89.6228
2009	21.8302
2010	82.4271
2011	88.1330
2012	92.1902
2013	95.8876
2014	37.3999
2015	96.2692

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Products Liability -- Occurrence**

Tax Year	Discount Factors (%)
2006	83.0564
2007	85.4302
2008	86.0203
2009	88.3994
2010	86.1113
2011	89.2324
2012	91.9553
2013	92.5997
2014	87.8074
2015	89.4589

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	91.1499
2017	92.8787
2018	94.6400
2019	96.4133
2020 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 92.7786 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Reinsurance A (Nonproportional Assumed Property)**

Tax Year	Discount Factors (%)
2006	87.5637
2007	85.0097
2008	88.6909
2009	92.0150
2010	92.5920
2011	94.1411
2012	95.7082
2013	96.8174
2014	97.3356
2015	98.0675

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Reinsurance B (Nonproportional Assumed Liability)**

Tax Year	Discount Factors (%)
2006	86.9992
2007	84.9315
2008	87.8351
2009	85.8777
2010	79.6478
2011	82.8774
2012	82.3201
2013	84.3658
2014	79.9064
2015	86.6394

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	88.5090
2017	90.5090
2018	92.6892
2019	95.1430
2020 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 91.2561 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Reinsurance C (Nonproportional Assumed Financial Lines)**

Tax Year	Discount Factors (%)
2006	86.8509
2007	87.5301
2008	90.6247
2009	88.3441
2010	91.1866
2011	85.1209
2012	87.9777
2013	94.0073
2014	95.2074
2015	96.9266

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

**Special Property (Fire, Allied Lines, Inland Marine, Earthquake, Glass, Burglary and Theft)**

Tax Year	Discount Factors (%)
2006	94.6724
2007	96.1907

Taxpayers that do not use the composite method of Notice 88-100 should use the following factor to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2008 and later years	98.0675
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Taxpayers that use the composite method of Notice 88-100 should use 98.0675 percent to discount salvage recoverable as of the end of the 2008 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

## Workers' Compensation

Tax Year	Discount Factors (%)
2006	87.6219
2007	88.7710
2008	89.1706
2009	89.1058
2010	88.5191
2011	89.2639
2012	89.0972
2013	89.2683
2014	90.0193
2015	91.7175

Taxpayers that do not use the composite method of Notice 88-100 should use the following factors to discount salvage recoverable as of the end of the tax year shown with respect to losses incurred in this line of business in the 2006 accident year.

2016	93.4488
2017	95.2002
2018	96.9195
2019 and later years	98.0675

Taxpayers that use the composite method of Notice 88-100 should use 94.5920 percent to discount salvage recoverable as of the end of the 2016 taxable year with respect to losses incurred in this line of business in 2006 and prior years.

## DRAFTING INFORMATION

The principal author of this revenue procedure is Katherine A. Hossofsky of the Office of the Associate Chief Counsel (Financial Institutions & Products). For further information regarding this revenue procedure, contact Ms. Hossofsky at (202)622-8435 (not a toll free call).